

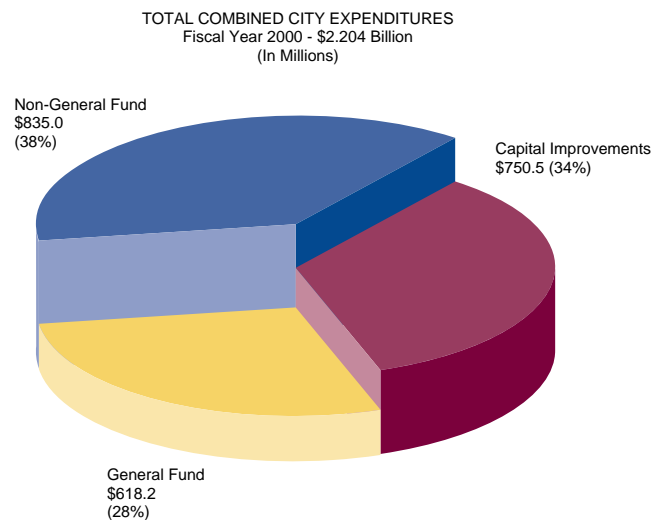
Fiscal Years 2000 and 2001 Financial Review and Status Report

The purpose of this report is to provide the Mayor and City Council with :

1. Current Year (Fiscal Year 2000) Financial Status - This report provides year-to-date figures and year-end projections based on the availability of seven months of actual revenue and expenditure data.
2. Budgetary Priorities - Prior to finalizing the City Manager's Proposed Budget for Fiscal Year 2001, staff is seeking policy guidance from the Mayor and City Council relative to budgetary priorities, as is done at this time each fiscal year.
3. Potential Fiscal Year 2001 Budgetary Issues - This report also identifies and addresses issues that may impact the preparation of the Fiscal Year 2001 Proposed Budget.

Fiscal Year 2000 Status

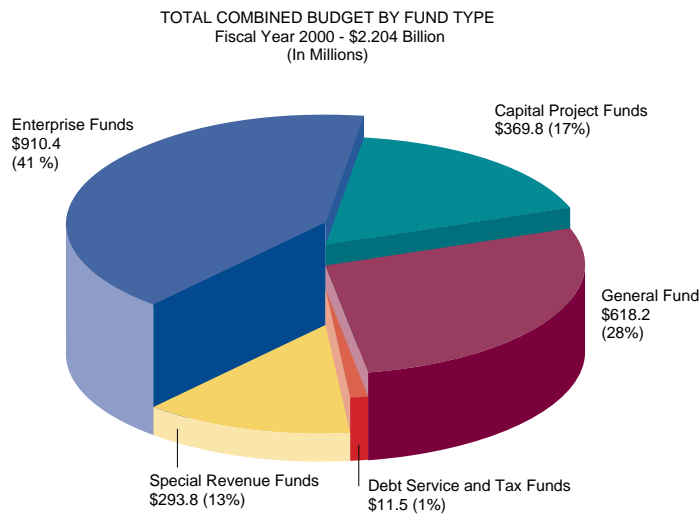
The Mayor and City Council adopted a balanced budget for Fiscal Year 2000 totaling \$2.204 billion including \$618.2 million for General Fund expenditures, \$835.0 million for Non-General Fund operations, \$750.5 million for Capital Improvements Program expenditures, and \$166.4 million in interfund transactions. A breakdown of the major spending areas is illustrated in the accompanying chart.



The City's Total Combined Budget is funded primarily through four types of funds:

- General Fund
- Special Revenue Funds
- Enterprise Funds
- Capital Project Funds

These fund types, in addition to Debt Service and Tax funds, are shown in the accompanying chart. Enterprise funds comprise the largest portion of the City's Total Combined Budget.



General Fund monies are used to pay for core City services such as public safety, parks and recreation, refuse collection, street maintenance, and libraries. The revenues to pay for these services are comprised of tax dollars, such as property taxes and sales taxes, but also include fees from licenses and permits, fines, interest earnings on investments, and a variety of other sources.

Enterprise funds account for specific services that are funded

directly through user fees. These specifically include Water, Sewer, Planning and Development Review, Refuse Disposal and Recycling, Golf Course and the City Airport. Typically these funds are intended to be fully self-supporting and are not subsidized by the General Fund.

The City Manager and City Auditor monitor the fiscal condition of the General Fund and the enterprise funds on a continuous basis throughout the year to insure their continuing adherence to the adopted budget.

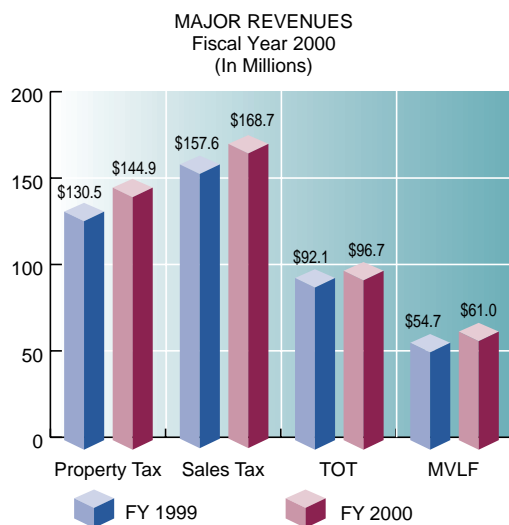
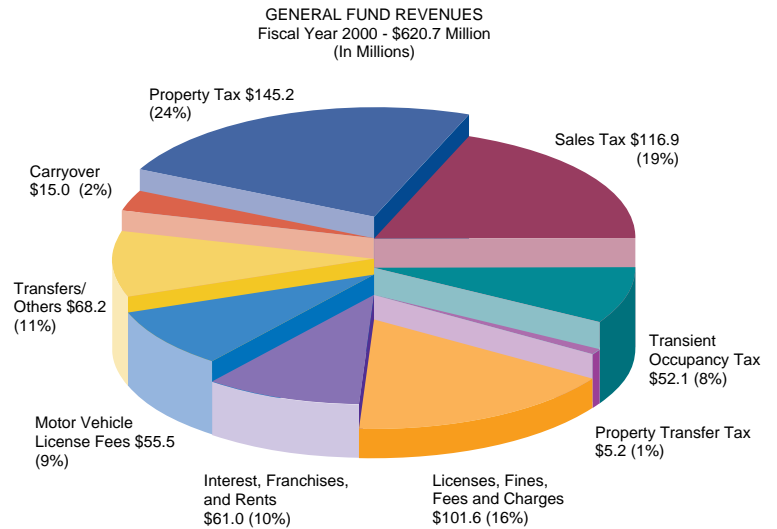
The remaining funds are monitored through periodic financial reports prepared by the City Auditor and revenue and expense statements developed by either the responsible department or the Financial Management Department. These funds typically account for small internal City operations, or funds that serve very specific purposes, including Maintenance Assessment Districts and Business Improvement Districts.

Summaries of the current year financial status of the General Fund and all other funds are included later in this report.

As required by the City Charter, the City has completed each fiscal year within budget without exception. The City Auditor and City Manager work together throughout each fiscal year to insure this goal is achieved.

Fiscal Year 2000 General Fund Revenue Status

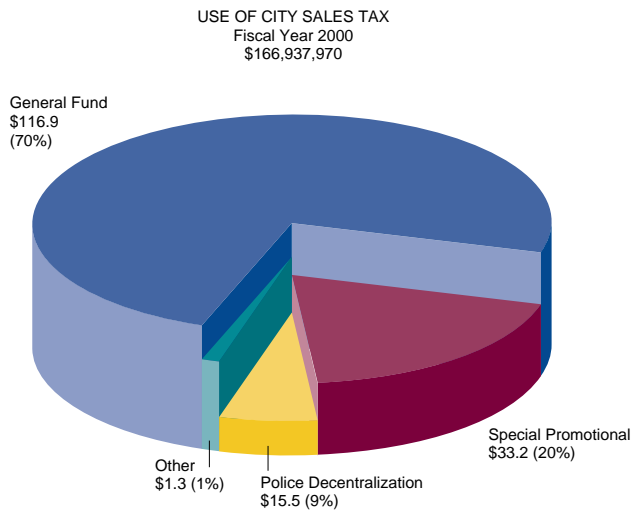
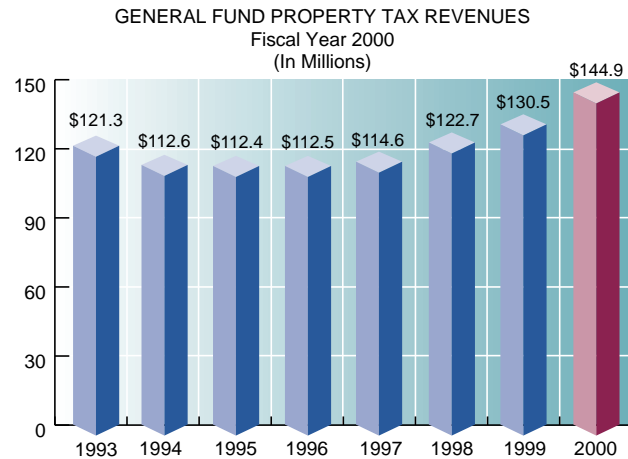
The Fiscal Year 2000 General Fund revenue budget includes the revenue sources shown in the chart to the right, with the four major revenue sources, Property Tax, Sales Tax, Transient Occupancy Tax, and Motor Vehicle License Fees comprising 60% of the total General Fund budget.



Revenue activity to date for Fiscal Year 2000 continues to reflect a strong and improved economy. All of the major revenue sources are exhibiting increases over prior year receipts, as shown in the accompanying charts. Activity throughout the remainder of the year will affect final growth rates and total revenues received for Fiscal Year 2000.

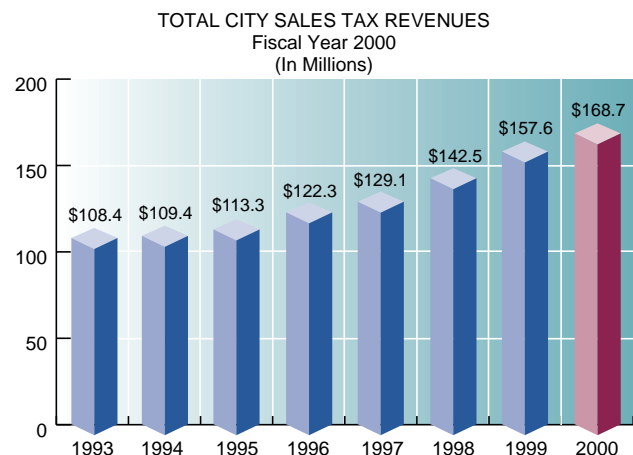
Following is a description and status of each major revenue source.

Property Tax - Fiscal Year 2000 Property Tax revenue is budgeted at \$145,165,634 reflecting estimated growth of 11.0% over the prior year. The majority of property tax payments are received twice a year, in December and April. Based on the information received to date, which includes the first of the two major installments, year-end projected growth is estimated to be very close to budgeted levels.



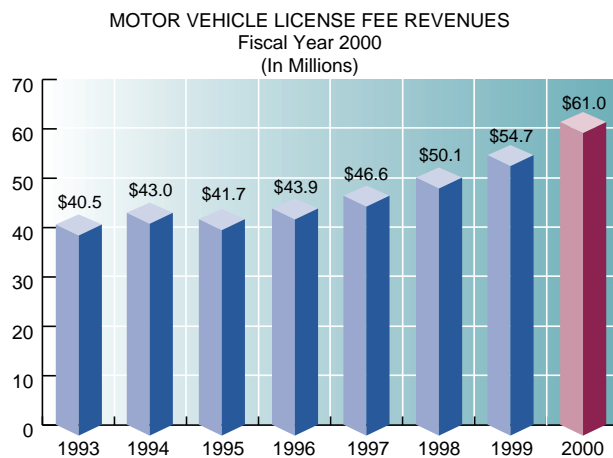
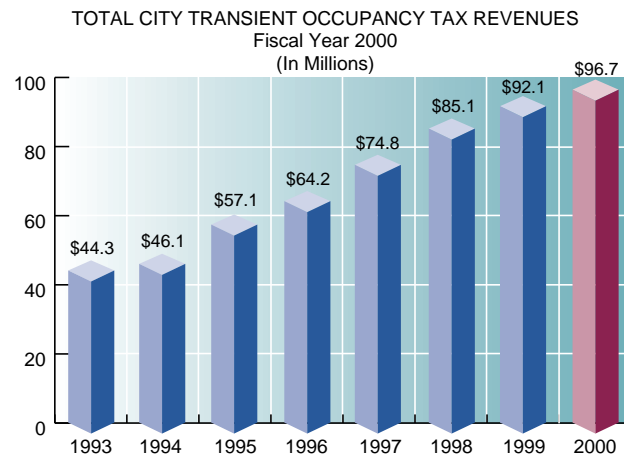
Sales Tax - The total Fiscal Year 2000 Sales Tax budget is \$166,937,970, which includes Proposition 172 Safety Sales Tax funds totaling \$4.9 million. The budget reflects estimated growth of 6.0% over the prior year. \$116.9 million is allocated to the City's General Fund. The remaining Sales Tax funds are allocated primarily to Special Promotional Programs, Police Decentralization,

and Capital Improvements. Receipts to date are projected to result in an overall growth of \$11.1 million over the prior year due to high consumer confidence and record spending levels. Significant sales tax growth has occurred in the areas of construction, building materials, and general retail.



Transient Occupancy Tax (TOT) -

Fiscal Year 2000 total TOT revenue is budgeted at \$99,529,519, with \$52,134,510 allocated to the City's General Fund. These amounts assumed 8.0% growth over last year's estimated base receipts plus additional revenue attributed to new Ballpark hotels. Current year activity to date and projected growth for the balance of the year is projected to result in actual TOT receipts of \$96.7 million.

**Motor Vehicle License Fees (MVLFF)**

- MVLFF revenue for Fiscal Year 2000 are budgeted at \$55,500,708, reflecting estimated growth of 4.0% over the prior year. Based on higher than expected receipts to date, Fiscal Year 2000 MVLFF revenue is projected to reach \$61.0 million. This unusually high growth is the result of strong showings in automobile sales and high-end vehicle leasing activity.

Description and status information on other General Fund revenues, in addition to the aforementioned major revenues which are primarily economy driven, follow.

Property Transfer Tax - Fiscal Year 2000 total Property Transfer Tax revenue is budgeted at \$5,220,073. Home title transfer activity has continued to exhibit growth, as interest rates were low early in the year and home values have continued to rise. The year-end estimate exceeds the budget by \$200,000.

Licenses and Permits - Fiscal Year 2000 revenues from licenses and permits are budgeted at \$20,236,915. Projections are \$130,000 higher than budgeted levels due in part to lower than anticipated year-to-date alarm permit fee receipts and business tax revenue projections that exceed budgeted levels.

Fines and Forfeitures - Fiscal Year 2000 fines and forfeitures are budgeted at \$25,163,046. Year-end projections are \$1.1 million below budgeted levels. With the increased visibility of law enforcement officers, much less revenue is being generated in the areas of vehicle code violations, ordinance violations, traffic school fees, and red light camera violations.

Interest Earnings - Fiscal Year 2000 interest earnings are budgeted at \$4,900,000. The General Fund's share of the investment pool, and average interest rates are expected to remain the same as the prior year. Interest earnings are lower than expected as a result of changes in the bond market which resulted in some short-term losses.

Franchises - Fiscal Year 2000 franchise fees are budgeted at \$33,633,268. Revised year-end estimates are \$2.4 million over Fiscal Year 2000 budgeted levels. Year-to-date growth of refuse collector franchise fees is 8% higher than the prior year and is expected to remain constant for the remainder of the year. This is attributable to a strong economy, San Diego's population growth and urban development, resulting in increased waste tonnage.

Revenue from Other Agencies - The year-end estimate for revenues received by the City from federal, state, and other local agencies is very close to budgeted levels. Recently, the State of California released booking fee revenue to the City. This revenue, which amounted to \$5,222,533, was budgeted to be received by the General Fund this fiscal year.

Overall, the City's major revenues are currently exceeding budgeted projections by just over 1%, or approximately \$7 million. With the second Property Tax payment and annual Sales Tax reconciliation payment yet to be received, it is premature to commit those funds to any unbudgeted expenditures. In addition, we believe these funds will be necessary to finance next year's budget.

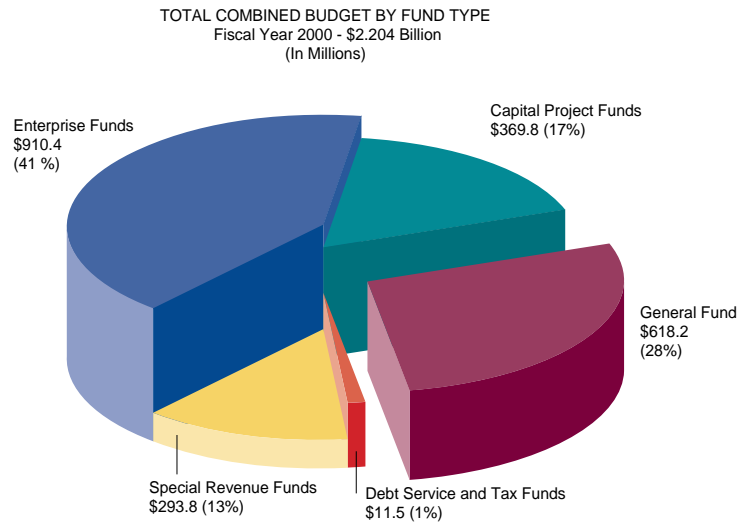
Fiscal Year 2000 General Fund Expenditure Status

Overall, the General Fund is anticipated to be in balance at the conclusion of the fiscal year, with the majority of departments projecting expenditures to be at or below their budget.

There is one exception. As a result of more trash than anticipated, the Environmental Services Department is projected to exceed their budget by \$600,000.

This overexpenditure will be offset by anticipated savings in other departments.

Both the expenditure and revenue projections may change as the year progresses due to the economy or unanticipated needs. General Fund revenues and expenditures will continue to be monitored and analyzed in conjunction with development of the Fiscal Year 2001 Proposed Budget.



Information Directed by the Mayor and City Council to be Addressed at Midyear

During Fiscal Year 2000 Budget Deliberations, the Mayor and City Council directed the City Manager to provide a midyear status on certain issues including:

- the impact of energy rate fluctuations on the City budget, particularly in Fiscal Year 2000,
- the status of Neighborhood Code Compliance integration into the Police Business Center,
- the possible use of excess cable franchise fees for public right-of-way maintenance,
- the availability of funds to complete the Serra Mesa/Kearny Mesa Branch Library and for branch library technology upgrades, and
- the ability to address \$1 million of unfunded needs for Fire and Life Safety Services

Impact of Market Restructuring on the Energy Budget

Fiscal Year 2000 electric energy appropriations totaled \$20.9 million. Through December, \$9.5 million had been expended, representing 45.5% of the total. This is \$2.7 million less than the \$12.2 million which would have been expected if expenditures were projected through period seven on a straight-line basis. Projected to year's end, Fiscal Year 2000 expenditures would total \$16.3 million, representing 77.9% of appropriations and savings of \$4.6 million in all City funds. The General Fund portion of this projected savings is \$1.4 million. These savings are offset, however, by increases in other energy costs including gas and fuel costs.

Given that the City's highest energy usage occurs during the summer months which begin each fiscal year due to air conditioning loads, and that power prices peak during the same timeframe due to higher demand, it is reasonable to assume that the projected savings of \$4.6 million will be realized. What is unclear, however, is whether those savings are a result of market restructuring or, more importantly, whether they can be expected to continue in the future.

The City's two year energy purchase agreement with Sempra Energy Solutions tied our energy costs to SDG&E's tariffs, with an \$800,000 discount in advance which was shared by the City, the Convention Center Corporation and SDDPC. On July 1, 1999, the Public Utilities Commission, pursuant to the direction of the legislature, lifted the rate freeze which had been in effect for the past two years, causing SDG&E's rates to float with the market price of power. Fortunately, substantial snow and rainfall had occurred in the Pacific Northwest during the previous winter, leading to

the availability of large amounts of low-cost hydropower, and the west generally experienced a mild, cool summer. These unpredictable factors resulted in lower market prices for energy, and are in large measure responsible for this year's savings.

While there is general market consensus that this fiscal year's low energy costs are primarily the result of favorable weather conditions, the forecast is for higher prices with a return to more normal weather patterns and the need to address the growth-related distribution constraints that exist on the southern California transmission grid. This being the case, the City should not expect a repetition of this year's anticipated savings in future years. On a going-forward basis, it would instead be more appropriate to consider energy contracts which incorporate upper and lower limits, or "collars," which would limit the City's exposure to market fluctuation and the adverse effect such fluctuations would have on the budget.

Neighborhood Code Compliance Integration into Police Business Center

On January 13, 1999, the City Manager recommended that the City Council support merging the Neighborhood Code Compliance Department (NCCD) into the Police Business Center. One of the primary goals of the merger was to increase the effectiveness of NCCD's function by the benefit it would derive from the Police Department's successful problem-solving strategies in neighborhoods. The proposal called for a 12-month transition period to identify the issues involved for a successful merger of the two organizations.

During this transition period, four committees were formed that included a wide representation of staff from both departments to resolve identified transition issues. Those issues are currently being addressed and we expect the integration of the two functions to be mutually beneficial.

Midyear Funding Requests

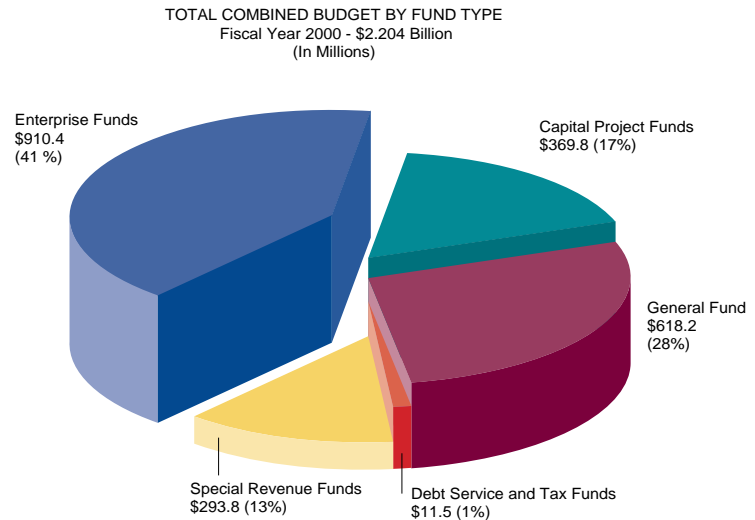
Based on the current year General Fund revenue and expenditure projections previously outlined, we cannot recommend that the Mayor and City Council make any decisions relative to the use of potentially excess funds for any unbudgeted expenditures at this time.

Fiscal Year 2000 Non-General Fund Financial Status

Following are brief descriptions of the financial status of each of the Non-General Funds, and some of the significant issues they currently face. Funds and departments are grouped by fund type, in the following order: Enterprise funds, Special Revenue funds and Internal Service funds.

ENTERPRISE FUNDS

These funds account for specific services that are funded directly by fees and charges to users. The intent is that these funds are to be self-supporting and are not subsidized by any general revenue or tax. Enterprise funds account for 41% of the City's Total Combined Budget.



City Airport

The City Airport Enterprise Fund was established to insure that Montgomery and Brown Field operations are managed, maintained, and improved without any General Fund subsidy. Management provides overall direction and support to insure compliance with federal, state, and local regulations; effectively manages revenues and expenditures to insure the viability of an enterprise operation. Operations provide for the safety and efficiency of airport operations. It also provides for the marketing and leasing of airport properties and other real estate activities related to the airport.

In Fiscal Year 2000, the Airport has continued its proactive approach to increase revenues through additional leases, tighter fiscal policies, and improvement in overall operational efficiency. Brown Field is no longer operating at a deficit due to the aggressive efforts made by staff in obtaining reimbursements for Brown Field Aviation Park (BFAP) related expenditures.

We are also in the process of beginning the construction phase of a \$3 million capital improvement project and have also received an additional \$250,000 in grant funding for the Montgomery Field Airport Master Plan.

The expenditure projections indicate that both airports are operating within the division's budget, and revenues and expenditures are trending as anticipated with no major variances.

Golf Course

The Golf Course Enterprise Fund manages and maintains the Balboa Park and Torrey Pines Golf Courses and is funded solely from golf green fees, concessions, and interest revenue derived from those courses. During Fiscal Year 2000, in July, staff assisted with the Junior World Golf Championship, which is the largest and one of the most prestigious junior golf tournaments in the world. In February 2000, Golf Operations hosted the very exciting and highly publicized PGA TOUR Buick Invitational, with Phil Mickelson taking first place and stopping Tiger Woods' six TOUR winning streak. As in past years, staff at Torrey Pines Golf Course received high marks for course playing conditions and staff support. Staff will also conduct the Men's and Women's City Amateur Golf Championship in June.

For Fiscal Year 2000, the Golf Course Enterprise Fund balance will cover expenditures. A shortfall from projected revenues for green fees is anticipated, mainly due to reduced rounds during the Reclaimed Water Construction Project on the North Course from March 1, 1999 to October 15, 1999. A decrease in the number of tournaments resulting from increased tournament rates (which took effect July 1, 1999 as part of a Three Year Funding Plan), also caused a decrease in revenue. However, these revenue shortages are covered by contingency funds and the Golf Course Enterprise Fund will be in balance at fiscal year end.

Metropolitan Wastewater

The City of San Diego's Metropolitan Wastewater Department (MWWD) provides a regional wastewater service that treated approximately 182 million gallons per day in Fiscal Year 1999. As a regional service provider, MWWD treats wastewater from 15 cities and districts in a 450 square mile area stretching from Del Mar to the north, Alpine and Lakeside to the east, and south to the Mexican border. MWWD manages all of the resources needed to operate the current Metropolitan Sewerage System, serving a population of 2.0 million, and provides new facilities for improved treatment or additional capacity.

MWWD projects a department-wide net savings of 4.7%, excluding reserves. This net surplus is attributable to reduced capitalization costs for the City of Escondido's Hale Avenue Treatment plant; and improved efficiencies at the Point Loma Wastewater Treatment Plant, North City Water Reclamation Plant, and the centralized maintenance facility.

MWWD projects a department-wide 3.2% net decrease in revenues which are offset by reduced expenditures. The slight reduction in total Fiscal Year 2000 revenue is due in part to a \$12.3 million reduction in anticipated bond proceeds which will be offset by an equivalent reduction of bond-funded Capital Improvements Program (CIP) expenditures.

Planning and Development Review

The Planning and Development Review Enterprise Fund is responsible for managing the majority of the construction and development project review services for the City of San Diego. Zoning and development information services are also a part of the Planning and Development Review Enterprise Fund. The major functions of building plan check and inspection, development and environmental planning, and subdivision review are centralized to provide greater coordination and management of development.

The Planning and Development Review Department is experiencing an increase in total building valuation for the projects it reviews. In Fiscal Year 1999, total building valuation represented an increase of 12% over Fiscal Year 1998. Currently, year-to-date valuation (through December) is up 17% over the same period last fiscal year.

For Fiscal Year 2000, the Planning and Development Review Enterprise Fund is forecasting revenues equivalent to the initial budget forecast, and it is anticipated that expenditures will exceed budget by 1%. As in previous years, the unobligated fund balance will be used to cover any shortfall in revenues or any overexpenditures. By the end of Fiscal Year 2000, the Planning and Development Review Enterprise Fund anticipates an unobligated fund balance of \$900,000. The Planning and Development Review Enterprise Fund will continue to monitor its reserves and manage to the revenues collected.

Refuse Disposal and Recycling

The Environmental Services Department finances several programs from two enterprise funds, the Refuse Disposal Fund and the Recycling Fund. The purpose of the programs is to efficiently and effectively maintain a clean, safe, and healthy environment by reducing, collecting, and disposing of solid waste; implement and encourage public participation in recycling programs; prevent litter; manage hazardous material; and, educate the public as to the benefits of a safe and sustainable environment.

The Environmental Services Department enterprise funds are currently operating on a sound fiscal basis reflecting strong revenue flow and anticipated containment of operating costs below budgeted levels.

As approved by the Mayor and City Council, the department has begun a multi-year program to expand citywide the collection of co-mingled commodities as well as greens material. During this program, the department will convert the collection of both materials from weekly, manual collection to bi-weekly automated collection.

Implementation of these programs will shift some solid waste management costs from the General Fund to the Recycling Fund. When fully implemented, approximately 155,000 tons of materials annually will be recycled and diverted from landfill disposal.

Water

The Water Department is responsible for providing the best quality of water to the residents of San Diego in a professional, effective, efficient and sensitive manner. By doing so, the public health, environment, and quality of life are enhanced.

The Water Department currently projects a small net surplus in Fiscal Year 2000. Most of the anticipated savings will come from the department's supplies and services which is projected to have a small surplus. This is offset by overtime for emergency-related water main breaks and other field service calls and \$1.6 million for emergency generators due to one-time year 2000 compliance costs.

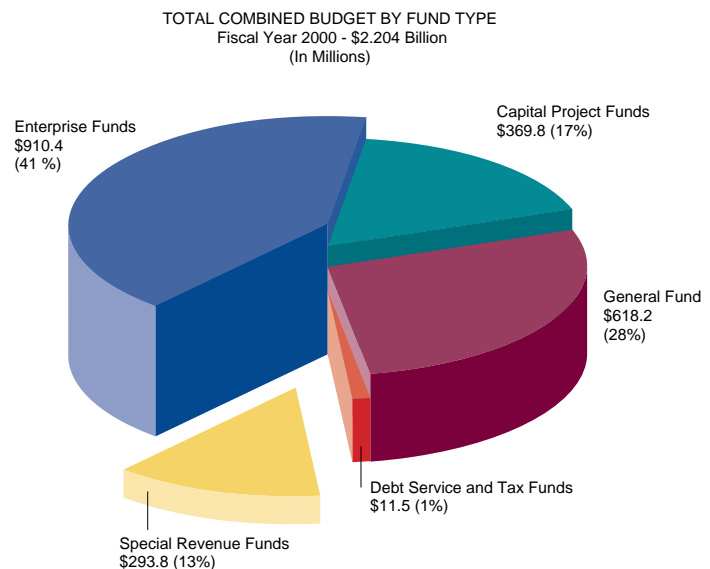
SPECIAL REVENUE FUNDS

These funds account for revenues received that have specific purposes for which they can be used. Special Revenue funds account for 13% of the City's Total Combined Budget.

Balboa Park/Mission Bay Park Deferred Maintenance

The Balboa Park/Mission Bay Park Deferred Maintenance Fund of \$4.0 million was established in Fiscal Year 2000 to perform deferred maintenance on projects identified by the Mayor and City Council in Balboa Park and Mission Bay Park. These projects include facilities as well as roads and parking lots.

The Public Buildings and Parks (TOT) Division manages the Balboa Park/Mission Bay Park Deferred Maintenance. These projects are on schedule and budget and should be completed by December 2000.



Centre City Maintenance Program

The Centre City Maintenance Fund is used to identify maintenance problems, develop solutions, and coordinate services and projects for the benefit of downtown. The fund provides services which include weekend refuse collection, street handsweeping, 24-hour downtown restroom availability, and coordination of special events. In addition, staff serves as a liaison between City departments and businesses regarding resolutions to maintenance issues. Revenues and expenditures are projected to be in balance at year-end.

Convention Center Complex and New Convention Facility

The Convention Center Complex Fund reflects the transfer of funds from Special Promotional Programs for the purpose of planning, promoting, operating, and maintaining the San Diego Convention Center, and also provides for the expansion of the Convention Center. This fund is projected to be in balance at year-end.

The New Convention Facility Fund provides funding for the operation and maintenance of the Convention Center and for City services related to operational and development activities between the City, the Convention Center Corporation, and the San Diego Unified Port District. It is expected that this fund will be in balance at year-end.

Emergency Medical Services

Emergency Medical Services (EMS) provides 24-hour medical transportation services to the City of San Diego through the San Diego Medical Services Enterprise, L.L.C., whose members are the City of San Diego and Rural/Metro of San Diego. Ambulances are staffed by personnel from San Diego Fire and Life Safety Services and Rural/Metro of San Diego.

It is expected that Emergency Medical Services expenditures will be recovered in total by the distribution of revenues and reimbursements from San Diego Medical Services Enterprise, L.L.C., San Diego Rural/Metro of San Diego, and Fire and Life Safety Services' budget.

Environmental Growth

The Environmental Growth Fund is used exclusively for the purpose of preserving and enhancing the environment of the City of San Diego. This fund is financed from franchise revenues. Two-thirds of the monies received are used exclusively to pay the debt service for bonds issued for the acquisition, improvement and maintenance of open space to be used for park or recreational purposes. The remaining one-third provides funds for maintenance costs for regional parks.

Facilities Financing

Facilities Financing is the City function which implements Community Plans. The Financing Plans Program identifies and provides cost estimates for community plan facilities. In conjunction with Community Planning, the existing and build-out development projections are also determined. From this determination, fees for each community are calculated based on the type and size of future development/redevelopment. These fees are then collected from developers when building permits are issued. Development Agreements and Tentative Maps are also monitored to insure that conditions are met on a timely basis.

Development Impact Fees or Facilities Benefit Assessments are determined for each community. As development occurs, plan files are reviewed and fees assessed. Key accomplishments are the number of community facilities provided all, or in part, through the use of these fees. In conjunction with Development Agreements and Tentative Map conditions, accomplishments are in the form of funds collected, monitored, and used for the purpose intended.

This year, expenditures have occurred in accordance with the budget. The Development Agreement Monitoring system and Tentative Map Condition Monitoring have been set up through a Development Monitoring Team.

Gas Tax

In Fiscal Year 2000 the Mayor and City Council approved \$25,484,361 in operating programs and capital improvement projects to be funded with Gas Tax funds. The Gas Tax Fund is successfully managed and monitored through a combined effort between the Auditor and Comptroller's Office and Financial Management. Based on the most recent estimates, the Gas Tax Fund will be in balance at year-end and it is estimated that all budgeted funds will be expended.

Los Peñasquitos Canyon Preserve

Los Peñasquitos Canyon Preserve Park Fund provides for the protection and enhancement of the natural features of Peñasquitos Canyon Preserve while providing for passive recreation in accordance with the Peñasquitos Master Plan. Sources of revenue for this fund include interest income and concession leases from the endowment fund established as a result of the American-General land trade agreement.

Police Decentralization

This program provides support for the site acquisition, planning, and construction of new, permanent police facilities; annual debt payment for permanent facilities; payment for jail services per negotiated contract with the County of San Diego; and debt payment for construction of the former City Jail. For Fiscal Year 2000, the Police Decentralization Fund is projected to be balanced.

Public Art

The purpose of this fund is to provide support for permanent and temporary public artworks, management and maintenance of the City's collection of art, and the San Diego Regional Artist Directory. It also funds community-initiated public art projects on a matching grant basis. This fund is projected to be in balance at year-end.

Qualcomm Stadium

Qualcomm Stadium has a long and proud history of providing world class sporting and entertainment events. In addition to being the home of the Aztecs, Chargers, Holiday Bowl, and Padres, the Stadium has hosted two Super Bowls and a third one will be conducted in 2003. Other major events over the years have been concerts, international soccer matches and conventions.

Stadium revenues are tracking slightly ahead (+1%) of budget so far this year. Operating expenses will run about 5% overbudget primarily due to contractual obligations to Stadium tenants. The Charger Ticket Guarantee exceeded budget by \$2.3 million, which was funded from the Ticket Reserve Fund.

Stadium maintenance efforts at this time are focusing on infrastructure needs typical of a 33-year old facility. This year's projects include the installation of non-slip rubber tiling in the Plaza Concourse, replacement of 30-year old air conditioning equipment and various improvements to make the Stadium more accessible to persons with disabilities.

Seized and Forfeited Assets

This program provides direction for the expenditure of seized and forfeited assets. Under the Federal Comprehensive Crime Control Act of 1984, local law enforcement agencies may receive from the federal government seized and forfeited assets from operations in which the local agencies participated. The large number of narcotics investigations conducted by the Police Department, in conjunction with federal authorities, makes the Department eligible for participation in the program. The Seized and Forfeited Assets Fund is projected to be in balance by year-end. Both revenue and expenditures will not exceed appropriations.

Solid Waste Local Enforcement Agency

Planning and Development Review's Solid Waste Local Enforcement Agency (LEA) is certified by the California Integrated Waste Management Board (CIWMB) to enforce state solid waste laws and regulations. To fulfill this mandate, the LEA carries out a comprehensive permitting and inspection program for all active solid waste facilities and operations within the City's jurisdiction. The LEA is also responsible for enforcing state requirements at closed, inactive, or abandoned disposal sites to insure the protection of public health and safety and the environment.

For Fiscal Year 2000, the LEA is forecasting revenues equivalent to the initial forecast, and it is anticipated that expenditures will be 19% below budget. The LEA unobligated fund balance is estimated to be \$440,000 by the end of the fiscal year.

Special Districts Administration

The overall budget for the Special Districts Division of Financing Services is in good standing. A surplus of approximately \$40,000 in personnel expense is anticipated at year-end. This is attributable to a vacancy that occurred during the first four months of the year. Due to the necessary Year 2000 preparations, fixes, and upgrades, it is anticipated that non-personnel expense will be fully expended at year-end. The majority of the revenue received by Special Districts is generated through assessment fees. Bi-annual deposits for the assessment fees are generally made in January and May.

Special Promotional Programs

The purpose of this fund is to advance the City's economic health by supporting programs that increase hotel occupancy and attract industry resulting in the generation of Transient Occupancy Tax (TOT) and other revenue; to develop, enhance, and maintain visitor-related facilities; and to support the City's cultural amenities and natural attractions. Due to TOT revenue growing less than estimated, TOT revenue to Special Promotional Programs is expected to fall short of budgeted levels by \$1.5 million. This shortfall will be mitigated by a decreased transfer to the General Fund for Safety and Maintenance of Visitor-Related Facilities.

Storm Drain

In Fiscal Year 2000 the Mayor and City Council approved \$6,460,343 in operating programs and capital improvement projects to be funded with Storm Drain funds. For Fiscal Year 2000, \$717,000 in capital improvement projects was contingent upon voter approval of an increase in the Storm Drain fee. That increase has not occurred and, therefore, those capital improvement projects will not be funded. The Storm Drain Fund will be in balance at year-end and it is estimated that all funds will be expended.

Transportation/Street Division

A midyear status for Street Division's Fiscal Year 2000 budget includes the following impacts:

With the additional \$13 million in enhancement funds, Street Division's resurfacing and slurry sealing contracts are on track. The initial \$2.1 million slurry sealing contract has been completed and the first \$4.1 million resurfacing contract got underway in December. Problem road segments such as Harbor Drive were targeted for special attention in January 2000. Contract support functions such as tree trimming, inspection, striping and street surveys began in the fall and continue to make the increase in contract work possible.

Street Division's Synergy Project continues to improve work efficiency and effectiveness. The new system was fully transitioned at the beginning of Fiscal Year 2000. There are four aspects of the implementation which include a new Service Request system for all sections within Street Division, Work Order Tracking, Automation of Task Assignment, and Preventative Maintenance. The system was designed to pay for itself with cost savings from the elimination of duplicate call outs, location verification and scheduled maintenance.

Street Division is projecting it will come in at budget, with Fiscal Year 2000 expenditures of approximately \$43,908,846, with revenues totaling the same.

TransNet

In Fiscal Year 2000, the Mayor and City Council approved \$47,100,920 in operating programs and capital improvement projects to be funded with TransNet funds. Of that amount, \$23,305,285 is TransNet cash and \$23,795,635 is Commercial Paper issued by SANDAG. Due to cash management efforts, the City utilizes TransNet revenues for projects as much as possible. Based on the most recent estimates, approximately \$13 million in Commercial Paper will be issued by SANDAG and all budgeted cash funds will be expended.

Unlicensed Driver Vehicle Impound

This program provides for specialized enforcement of State of California laws regarding the operation of a motor vehicle without a driver's license or with a suspended or revoked driver's license. The program was initiated with grant funding from the State of California Office of Traffic Safety and continues as a self-supported program funded by the fees imposed on the impound of vehicles of unlicensed drivers. The Unlicensed Driver Vehicle Impound Fees Fund is projected to be in balance by year-end. Both revenue and expenditure will not exceed appropriations.

INTERNAL SERVICE FUNDS

Internal Service funds are created to finance and account for centralized services provided to all other City departments. These funds' expenses are repaid from fees, with rates set to recover the cost of the services provided. Internal Service funds are generally not included in the City's Total Combined Budget since the related revenues and expenditures reflect the repeated use of City funding sources. These funds together total \$166.4 million in Fiscal Year 2000.

Central Stores

The Central Stores Revolving Fund is responsible for the procurement, storage and distribution of approximately \$16,000,000 in materials and supplies to City departments, administration of the Citywide Open Purchase Order Program, the sale and redistribution of surplus City property and the pickup and delivery of City interoffice and United States Postal Service mail.

The Mail Center's United States Postal Service Activity has implemented a new internal management and accounting system. This new system will improve internal management reporting capabilities and increase labor efficiencies.

The customer satisfaction rate for our Storeroom Operations Activity is currently 96.7%. Revenues and expenditures are projected to be in balance at year-end.

Competition Program

The Competition Program assists business units to insure that public services are provided to the residents of San Diego in the most productive and optimal manner. The program includes the administration of the Citywide Survey and Resident Satisfaction Survey, as well as the ongoing performance monitoring of City services that have pursued the competitive assessment process. It is anticipated that year-end expenditures will be within estimated revenues.

Engineering and Capital Projects - Water/Wastewater Facilities

The expenditures for this year are in alignment with the budget, project schedules and MOU funding.

The Water and Wastewater Facilities Division is funded through the Water and Metropolitan Wastewater Departments. The purpose of the division is to provide preliminary engineering and the design of water and wastewater projects. As of December 1999 the department programmed 184 water projects totaling \$155 million and 258 wastewater projects totaling \$437.3 million and the goal is to complete 100% of these projects on schedule.

Two of the major projects currently in progress are the Rancho Bernardo Pipeline No. 2 and the La Jolla/Pacific Beach Trunk Sewer-Chelsea Street Relocation Project. The Rancho Bernardo Pipeline No. 2 project will consist of the design and construction of 31,545 lineal feet of 48-inch diameter pipeline to supplement the Rancho Bernardo Pipeline No. 1, which was built in 1964, as primary transmission facility that conveys water to the Rancho Bernardo and Del Mar communities. In order to reduce the City's dependence on San Diego County Water Authority's (SDCWA) treated water, the amount of water conveyed north will have to be increased. The proposed Rancho Bernardo Pipeline No. 2 will provide redundancy to the Rancho Bernardo Pipeline No. 1 and add additional capacity to convey water north allowing the City to meet the current and projected demands while reducing its dependence on SDCWA treated water. Design is expected to be completed in May 2001 with construction to immediately follow.

The La Jolla/Pacific Beach Trunk Sewer-Chelsea Street Relocation project is currently in design. Originally installed in 1949 to convey sewage from La Jolla to Pacific Beach, the La Jolla/Pacific Beach Trunk Sewer exits the La Jolla Boulevard right-of-way at Midway Street and runs through an easement for approximately 3800 feet before re-entering La Jolla Boulevard. This project provides for the installation of 3,800 linear feet of new 21-inch pipeline to replace the existing pipeline located within an easement between properties, including constructing several 8-inch collector sewers and replumbing of approximately 100 laterals at an estimated cost of \$960,000. Total project cost is \$5,432,322. This project was initiated due to increasing odor complaints from residents within the project area and the difficulties with access encountered by City staff maintaining the trunk sewer.

The Water and Wastewater - Field Division is funded through Water and Metropolitan Wastewater Departments. The purpose of the division is to provide construction management and inspection for water and wastewater projects. As of December 1999 the department programmed 26 water projects totaling \$14.4 million and 34 wastewater projects totaling \$21.5 million. The division's goal is to complete 100% of these projects on schedule.

Two major projects currently in progress are the Miramar Pipeline Improvement Phase II and Mid-City Water Transmission Pipeline Project.

The Miramar Pipeline Improvement Phase II consists of installation of approximately 4,300 feet of 54-inch diameter water pipeline from Mira Mesa Blvd. to Carroll Canyon Road to replace and realign a section of deteriorated pre-stressed concrete cylinder pipe (PCCP) in an environmentally sensitive canyon. Portions of the existing PCCP in Mira Mesa Blvd. will be inspected for corrosion damage and repaired if necessary.

The Mid-City Water Transmission Pipeline Project construction is scheduled to begin in the fall of 1999 and anticipated to be completed in the fall of 2001. The first phases of construction will commence with manufacturing of the pipe, mobilization of equipment on site, and placement of work area signage. The entire pipeline is 24,000 feet, which is about 4.85 miles.

The project was initiated due to the deterioration of the Trojan Pipeline. The Trojan pipeline is unable to keep pace with the growth and development in the Mid-City area for the past two decades. As a result, many Mid-City community residents have experienced lower than acceptable water pressure. The Mid-City pipeline will provide backup to the Trojan Pipeline allowing the City of San Diego to take portions of the Trojan Pipeline out of service for inspection and repair. The Mid-City Pipeline will increase water pressure in the Normal Heights area, and improve the reliability of the water delivery system throughout the entire Mid-City area.

Engineering and Capital Projects -

Public Buildings and Parks/Transient Occupancy Tax

Public Buildings and Parks (TOT) Division is in the final year of CIP project implementation for Phase I of the Balboa Park/Mission Bay Park Improvement Program funded mostly through Certificates of Participation (COP) and Transient Occupancy Tax (TOT).

In addition, Public Buildings and Parks (TOT) Division started project initiation for the Balboa Park and Mission Bay Park Deferred Maintenance list of projects, funded by the Balboa Park/Mission Bay Deferred Maintenance Fund. These projects are expected to be completed by June 2001.

Equipment Division

The Equipment Division of the Transportation Department is responsible for the acquisition, maintenance and repair of the City's 2,400 non-emergency vehicle fleet.

The Equipment Division Operating Fund is anticipated to be in balance with revenues meeting expenses by year-end. Current challenges include increased expenses for auto repair parts, fuel, and staff time to maintain an aging fleet.

The Equipment Division Replacement Fund acquisition plan for the year calls for \$4 million in General Fund lease/purchases, \$3 million in Street Division cash purchases, and \$4.7 million in cash purchases for other Non-General Fund departments.

Information Technology and Communications

The Information Technology Division is forecasting full expenditure of the Fiscal Year 2000 budget.

Information Technology Division may face reorganization issues as the new Chief Information Officer begins developing an Information Technology strategic plan. While there should be no immediate financial impact, the anticipated changes may result in budgetary changes for the Fiscal Year 2001 budget.

Print Shop

The Print Shop Revolving Fund is responsible for managing, supervising, and producing the City's publication, graphics, multimedia, and convenience photocopier requirements in an efficient and organized manner to achieve maximum quality at the lowest possible cost.

Over 5,800 printing, graphics, multimedia, and photocopy requests have been completed thus far in Fiscal Year 2000 with a 95% satisfaction rate. The Print Shop plans on expanding services this fiscal year to include document imaging and digital photocopying.

At year-end, the division's projected expenditures will meet its appropriated budget with revenues meeting expenditures.

Risk Management

The Risk Management Administration Fund currently shows revenues exceeding expenditures and encumbrances by approximately \$72,000. It is expected the fund will cover its expenditures with its revenues. Year-end revenue and expenditure projections are balanced.

Special Training

The Special Training program consists of academy courses, training classes and career management. The courses offered cater to employees across all levels of the organization and result in increased knowledge of best practices in management and supervision. Training programs include Academy 2000, Dimensions in Discipline, Inspiring Performance Through Rewards and Recognition, and Career Development. It is anticipated that year-end projected expenditures will be within estimated revenues.

CAPITAL IMPROVEMENTS PROGRAM FUNDS

The Capital Improvements Program (CIP) is developed in accordance with Council Resolution 181319, dated September 3, 1964 and Council Policy 800-6, dated March 6, 1975. Per this resolution, a six-year CIP is developed each year. The Fiscal Year 2000 CIP Budget totals \$750,511,571.

The City takes a positive approach to CIP budgeting, whereby monies are appropriated in the fiscal year in which the various stages of a project are scheduled, rather than appropriating all project costs in a single fiscal year. This has allowed the City to better match revenue flows with actual expenditure plans. Any changes to the adopted CIP budget generally require City Council action.

In addition, several Sewer and Water capital projects are “phase funded” to better manage cash flow. Phase funding allows a contract or project to be broken down into clearly defined portions, or phases, which can be funded on a contingent basis. Thus a single large project may be considered as a series of component tasks and contracted for by phase. Each phase is then appropriated. These projects reflect unappropriated funding in the Annual Budget and monies are appropriated as each phase progresses throughout the fiscal year. It is important to note that the City’s CIP funding is generally restricted and many significant unfunded capital needs still need to be met.

City Budget Priorities And Operations

Budget Priorities

The demand for public services generally exceeds the funds available to supply them. Consequently, priority-setting continues to be a very important part of the City's budget development process.

Each year staff seeks guidance from the Mayor and City Council as to your budget priorities. To insure that the City is responsive to constituents in providing needed services, regular Citywide constituent surveys, continuous departmental customer surveys, numerous community budget forums to gather resident input, computer on-line access to the City's budget and several other opportunities for input and response are provided.

Based on the input received from these sources, the City has established the following priorities:

1. Public Safety and Health

Essential public safety services and functions continue to be the City's highest budget priority, including Police, Fire and Lifeguard Services. Health includes Refuse Collection and Animal Control.

2. Neighborhood Pride and Protection

Programs include maintenance of library programs and hours; maintenance of recreation center programs and hours; preservation of extended school day alternatives such as the 6 to 6 program; graffiti removal improvement project; and the DARE program. These expenditures are budgeted within the Police, Library and Park and Recreation departments.

3. Economic Development

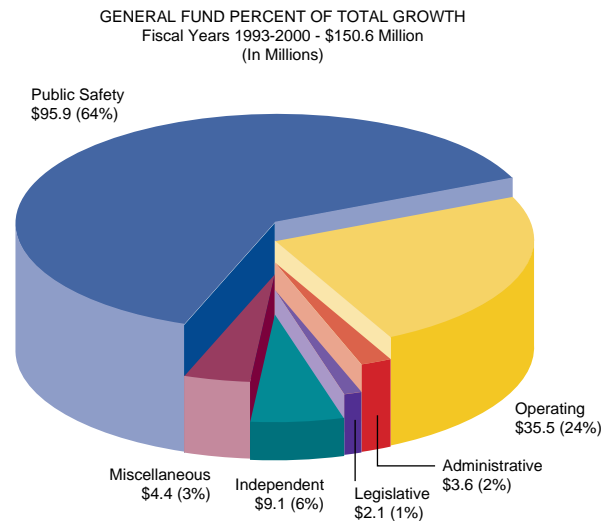
The City's Economic Development Strategy for the 21st Century encompasses numerous programs which have strengthened San Diego's economy, minimized the impacts of the recession and established San Diego as a business-friendly environment. Programs include the Business Expansion and Retention and Business Finance Programs as well as small business assistance.

4. Streets

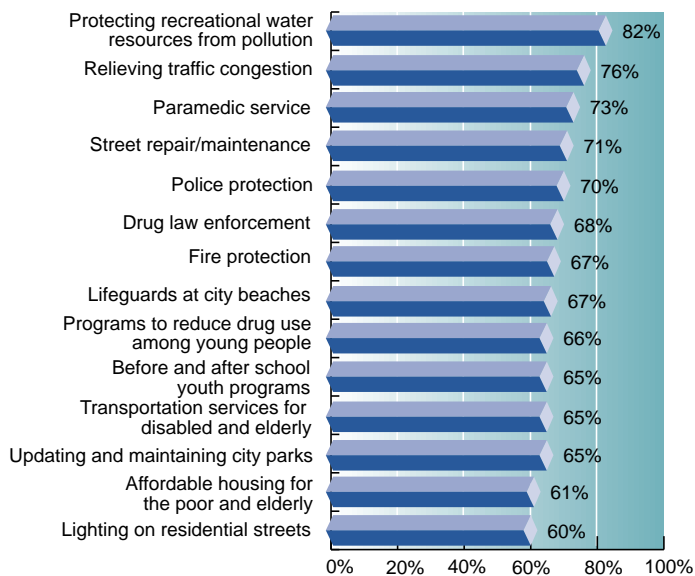
A two-year Roadway Enhancement Program that began in Fiscal Year 2000 will continue to provide necessary resources for roadway (including bridges and sidewalks) maintenance and repair. Components include street resurfacing, pavement slurry sealing, concrete street repair and pothole response programs.

While budget priorities are generally framed within the context of the General Fund, they provide guidance to the City Manager in developing the proposed budget for all funds as well as administering City operations throughout the year.

Consistent with these priorities, the City has dedicated much of its resources to public safety spending. Since Fiscal Year 1993, public safety expenditures have increased by \$95.9 million, which is 64% of the \$150.6 million of total growth in the General Fund budget.



1999 CITYWIDE SERVICE PRIORITY RANKING
Highest Spending Priorities
% High or Very High



In the 1999 Citywide Service Priority Ranking Survey, residents reaffirmed these priorities as illustrated in the accompanying chart.

Based on recent surveys and ongoing community input, we believe these priorities are appropriate and recommend that they be affirmed.

City of San Diego 1999 Resident Satisfaction Survey

Key findings from the City of San Diego 1999 Resident Satisfaction Survey completed in October 1999 are the following:

- First, the City of San Diego continues to receive very high marks from residents for the services it provides, with more than nine out of ten residents indicating they are satisfied with the job the City does.
- Second, the City receives high ratings in the vast majority of instances for its efforts in delivering 35 specific municipal services.
- Third, the quality of life that San Diego offers is viewed very highly by 85 percent of residents.

San Diego residents were asked to indicate how satisfied they are with each of 35 services provided by the City of San Diego - very satisfied, somewhat satisfied, somewhat dissatisfied, or very dissatisfied. Each of the positive responses to this series of questions was then combined to generate a “satisfaction rating” for each studied service.

The following seven of the 35 services received a satisfaction rating from nine out of ten residents or more:

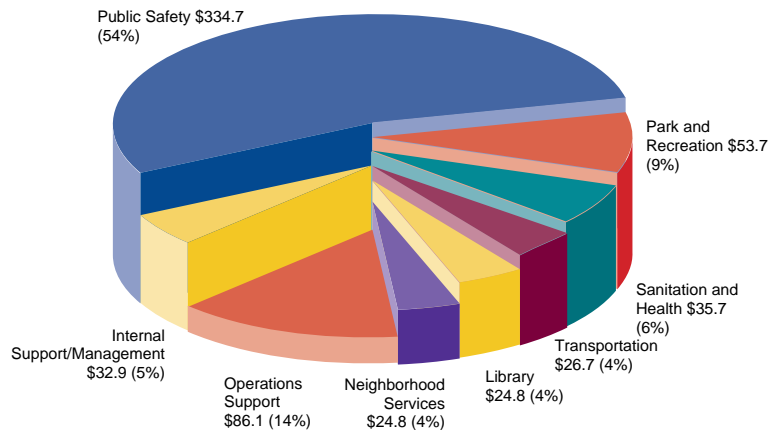


The complete survey results are being provided to the Mayor and City Council under separate cover.

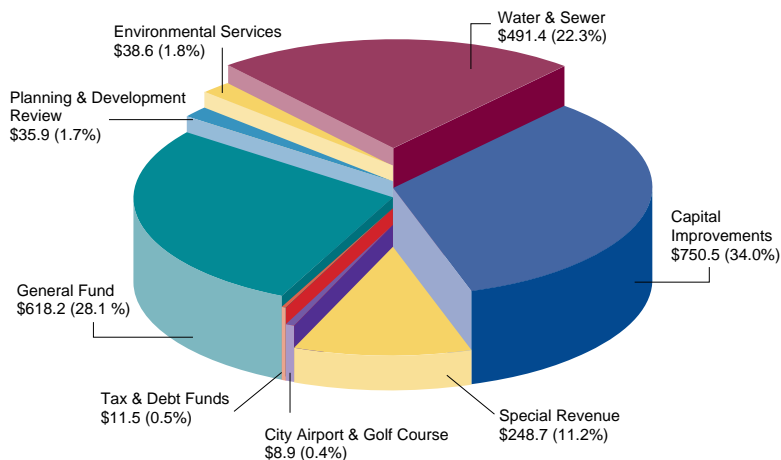
City Operations

The General Fund provides for highly visible services such as police, fire, park and recreation and library services as illustrated in the accompanying chart. For this reason, the General Fund sometimes overshadows the magnitude and importance of the balance of City operations. These services are funded primarily through general tax dollars such as

GENERAL FUND EXPENDITURES
Fiscal Year 2000 - \$618.2 Million
(In Millions)



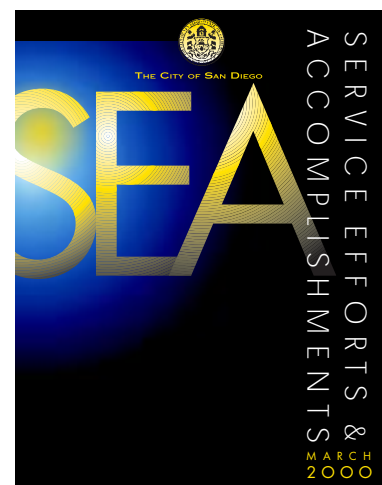
TOTAL CITY BUDGET EXPENDITURES
Fiscal Year 2000 - \$2.204 Billion
(In Millions)



property tax, sales tax and motor vehicle license fees. As illustrated in this chart, the General Fund represents about one-third of the City's budget, and functions outside the General Fund have their own funding sources and performance expectations as a part of the City's performance management program.

To insure that the Mayor and City Council and our residents have performance and benchmarking data regarding all primary City services, regardless of funding source, the Service Efforts and Accomplishments report was developed.

It is my hope that this document, along with the Midyear Financial Report, will be a useful tool in addressing policy decisions in the forthcoming budget process.



Fiscal Year 2001 Proposed Budget Issues

Economic Outlook

The single largest issue affecting the City of San Diego's budget in Fiscal Year 2001 is the economy. The economy has continued to show signs of fiscal stability and strength in during the first half of Fiscal Year 2000 and the major revenue categories are all experiencing growth over the prior year.

Economic forecasts call for continued economic expansion in the coming year and the City's revenues are expected to grow. The growth rates of City revenues will continue to be closely monitored and be the subject of further analysis by City staff prior to the release of the Fiscal Year 2001 Proposed Budget to determine how much new revenue may be available to finance City expenses.

Consumer Spending

The Consumer Confidence Index reached a record high in January 2000. Consumers have been encouraged by the strong economic expansion, which has continued for more than eight years. Consumer spending is predicted to rise even further in the coming months. Meanwhile, the Consumer Price Index that measures inflation rose by an estimated 0.3% in January, in response to interest rate increases by the Federal Reserve Board. The strength in consumer confidence points to strong consumer spending, and as long as the labor market is strong, consumers have jobs and the stock market is up, consumer confidence will remain strong. A surging stock market, ample jobs and rising incomes all helped make consumers confident enough to keep shopping, adding to the expansion since spending generates two-thirds of the United States' economic activity.

State Budget

Governor Davis' budget proposal reflects a much-improved outlook since the passage of the current year budget. However, further significant gains in economic and revenue activity in December and January suggest that revenues will exceed the new budget's projection by \$4.2 billion in the current and proposed years combined, particularly due to estimated increases in year-end personal income tax payments.

The proposed budget includes some one-time funds for local law enforcement grants and proposed to make permanent and provide new funds for the Citizen's Option for Public Safety program. However, the budget does not propose any fundamental fiscal reforms or fiscal relief for local governments. More specifically, there is no proposal to alter the method by which property taxes are allocated. It has been argued that the current system lacks accountability and effectively skews land-use incentives in favor of retail development at the expense of industrial and residential use.

Local Economic Highlights

The local economy has tracked strongly with national trends and economists predict moderate growth in San Diego. San Diego is expected to fare better than the state and the country in the tourism and employment sectors in 2000.

Tourism

San Diego continues to be considered one of the strongest hotel and visitor markets in the United States. The tourism industry is expected to continue to grow moderately, albeit at a slower rate than in past years. The average daily room rate has continued to rise while hotel occupancy has declined slightly.

Potential new revenue was lost due to delays in expansion of the Convention Center. With respect to convention hotel room bookings, the San Diego Convention Center Corporation predicts that the City of San Diego will not realize \$3.2 million in Transient Occupancy Taxes in 2000 entirely due to the delay in completion of the Convention Center expansion. Also, San Diego hotels were estimated to lose \$31 million in potential hotel revenues in 2000.

Employment

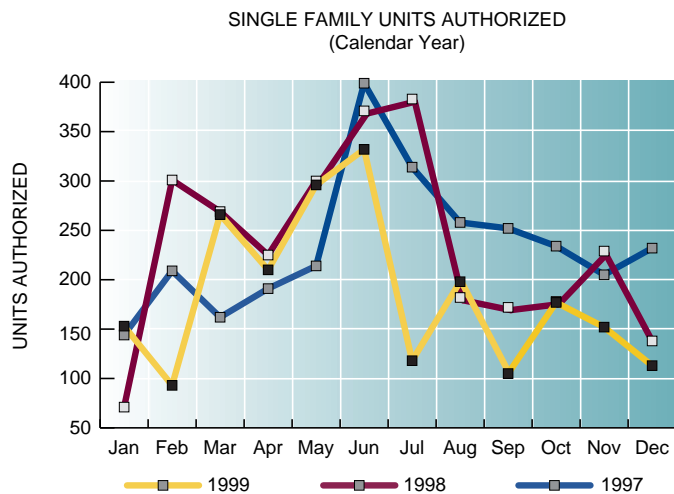
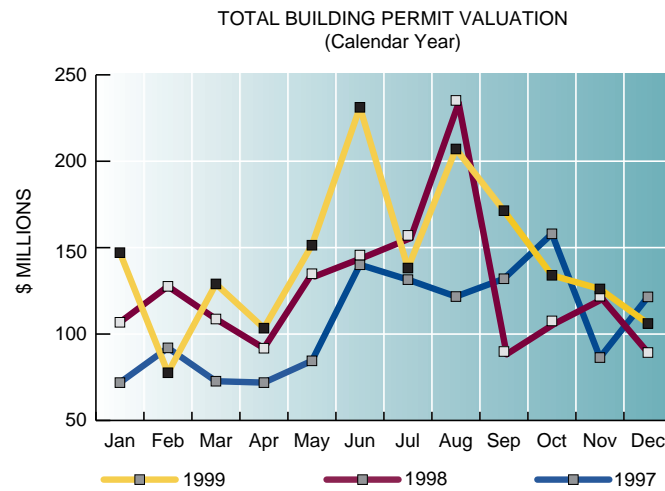
San Diego's unemployment rate for 1999 was 3.2%, the lowest annual rate in decades, and actually dropped into the 2% range during the last quarter. This is considerably lower than California's 5.4% and the nation's 4.3% for the year. The annual rate is forecast to rise slightly to 3.3% in 2000, but to remain lower than the 5.6% projected for California and the 5.0% projected for the United States. Most new jobs are among the services-producing industries. A matter of concern in 2000 should be a decline recorded among San Diego manufacturing companies in 1999 attributable to relatively high development and construction costs.

Fiscal Year 2001 General Fund Revenue Projections

The status of the Fiscal Year 2000 major revenues suggests a continued improved economy, though it is clear that more than moderate growth cannot be expected for the future.

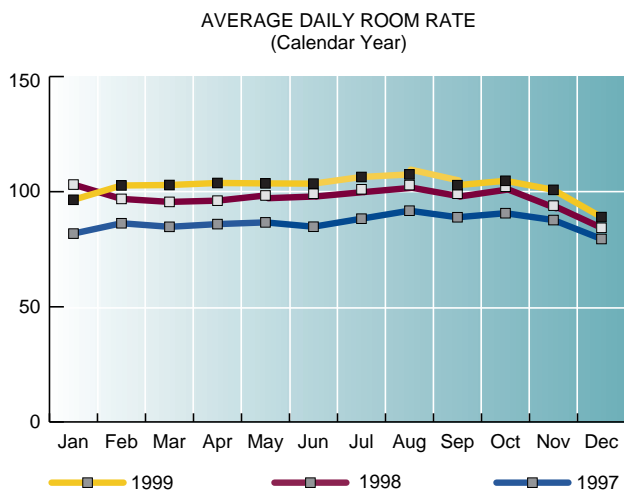
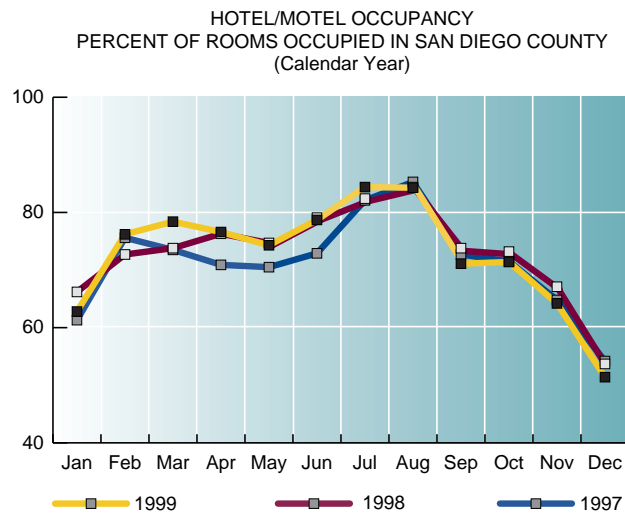
Revenue estimate development for the future will be an ongoing process, and further changes in current year activity are likely to impact revenue estimates used to develop the Fiscal Year 2001 Proposed Budget.

Economic indicators, in addition to current year activity, reflect that the local economy is strong. Total valuation of permits issued and the number of dwelling units authorized are indicators of relative strength in the construction industry and overall economy. Through December 1999, the valuation total was approximately \$1.8 billion, up 17.2% over the same period in 1998.



However, for the year, the number of single family units authorized declined by 21.5% compared to 1998, with multiple family units authorized showing an increase of 75.7% compared to the previous year.

Through December 1999, the hotel/motel occupancy rate was 72.8%, down 0.3% over the same period in 1998, while the average daily room rate increased by 4.4% to \$102.01.



Based on these various sources, moderate growth is currently estimated for the major General Fund revenues.

Principles of Budgeting and Finance

Development of the Fiscal Year 2001 Proposed Budget presents many challenges and the following principles which were endorsed by the Rules Committee two years ago will assist in addressing these issues.

1. Ongoing expenditures should be supported by ongoing revenues. Consequently, one-time revenues should not be used for ongoing expenditures on a continuous basis.
2. General Fund reserves should be maintained at approximately 3%.
3. When capital projects are considered, all associated costs should be identified in order to properly consider future financial impacts.
4. Each enterprise fund should reflect the true cost of operation, including direct and indirect costs of services provided by the General Fund.
5. Activities that are supported by user fees should be fully cost recoverable.
6. Discretionary General Fund revenues should not be earmarked, thereby allowing maximum flexibility in funding decisions on an annual basis.

The issue of most immediate concern is matching ongoing revenues with ongoing expenditures. The guidelines I will follow in developing the Fiscal Year 2001 Proposed Budget are as follows:

- a) While all new spending should be carefully considered and minimized at all times, until the use of one-time revenues is significantly reduced, I will recommend limiting new expenditures.
- b) Reduction of one-time revenues through the use of new or increased ongoing revenues will continue to be a high priority.

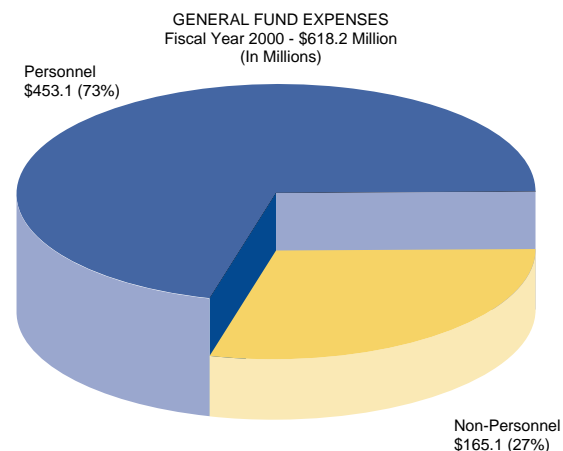
Fiscal Year 2001 General Fund Expenditure Projections

Anticipated expenditure increases for Fiscal Year 2001 are related to the following:

- Labor Agreements
- Retirement Rate Increase
- Annualized costs of operating new facilities opened during Fiscal Year 2000
- New facilities scheduled to open in Fiscal Year 2001

With personnel expenses accounting for 73% of the General Fund budget, salary increases reflected in approved labor agreements and those currently being considered will have a significant impact on Fiscal Year 2001 expenditure levels.

Other potential expenditure increases are being reviewed at this time.



Comparison of General Fund Revenues to Expenditures

The Fiscal Year 2001 Proposed Budget is currently in development and will be presented to the Mayor and City Council in May. Several strategies are being considered at this time in order to bring potential expenditures in line with anticipated revenues.

Each year, the key challenge in the budget process is to match ongoing revenues with ongoing expenditures in the General Fund. While the economy is performing strongly, our primary strategy in continuing to reduce the reliance on one-time revenues in the forthcoming year is to constrain new spending.

Unfortunately, the negative impacts of the state reducing our ongoing revenue base still linger. At a minimum, we are still losing approximately \$25 million to the state annually. Combined with other reductions, the City's General Fund ongoing revenue base has been significantly reduced.

To preserve the levels of service that we provide to the residents, which are primarily public safety, revenues that are not ongoing in nature have been utilized to offset the loss of revenues to the state. The challenge that we face is to replace the short-term revenues with ongoing revenues, as they become available.

The growth in the major General Fund revenues driven primarily by the economy is currently estimated to be approximately \$34 million in Fiscal Year 2001. The growth is in five major sources, including Property Tax, Sales Tax, Transient Occupancy Tax, Motor Vehicle License Fees, and Safety Sales Tax.

As we develop the Proposed Budget, we initially identify those areas where we are contractually obligated to commit resources. Staffing of new facilities previously approved by the Mayor and City Council must also be accommodated.

The following list is not intended to be complete, but it does identify the approximate costs we currently project in these categories for Fiscal Year 2001:

Previously agreed to costs including salary, benefit, and retirement contributions	\$16.3 million
Contractual obligations (office space rental, red light contractor)	\$ 3.2 million
New facilities (Fire stations and Park and Recreation Facilities)	\$ 3.0 million
Total	\$22.5 million

These costs alone consume approximately two-thirds of the projected revenue growth. They do not include such items as:

- Any new meet and confer costs
- New revenue to offset any short-term revenue utilized to fund the Fiscal Year 2000 budget
- New ongoing costs generated by grants received, i.e. maintenance of new technology equipment received by the Police Department
- Additional funds to dedicate to deferred maintenance
- Replacement costs for major pieces of motive equipment
- Increases to meet demand and maintain the current levels of service

In addition, the above examples do not address new or enhanced service delivery or include funding for many unfunded needs for existing core services.

Clearly, the needs exceed our ability to fund them within the current budget base. As a result, our efforts have been focused in three areas:

1. Return of Our Funds From the State - This issue is of particular concern for two reasons:
 - a) Counties in California have been essentially been fully reimbursed by the state for funds taken from them during the recession. San Diego has received 25% to 30% back, depending on how it is calculated, and most of the money returned to us has spending restrictions.
 - b) The state is projecting a huge surplus in the billions in Fiscal Year 2001. Much of that surplus is money that was taken from cities and never returned.

We are working with the Intergovernmental Relations Department and our Sacramento lobbyists to get our money back. At this time, there appears to be a good possibility that there will be a sizeable allocation to local government in Fiscal Year 2001. Unfortunately, it does not appear that the state will return any money on an ongoing basis unless there is a significant change in the current direction.

2. Limit New Expenditures and Prioritize Existing Expenditures - Each year, expenditures have grown due to increased costs and demand for core services and new facilities by a growing population, and the addition of new and enhanced programs. Annual revenue growth together with short-term revenues provide the necessary funding to maintain a balanced General Fund budget. Limiting new and prioritizing existing expenditures is an approach that would allow for provision of core services given available revenue thereby minimizing the need for new revenue sources or increased fees.
3. New General Fund Revenue Sources - Recent revenue ideas have included the Corporate Sponsorship Program that was instituted this fiscal year. However, San Diego has been reluctant to assess new or adopt increases to existing fees, and has reduced some in an effort to be business friendly. The only significant new fees or fee increases during the 1990's were the implementation of the Refuse Collector Business License Tax, and the increase in the Transient Occupancy Tax rate from 9 to 10.5 percent.

In terms of adopting increases to existing fees, proposals that make fees for service cost recoverable should be carefully considered. Whenever cost recovery does not occur in the General Fund in fee-for-service activities, the taxpayers are subsidizing services provided to specific groups of individuals.

Community Input Process

To be responsive to the needs of the City Council and the residents of the San Diego, several mechanisms are in place to solicit public participation in the budget development process and to request citizen input in setting and revising the City's budget priorities. The collection of this information is an important component of the City's efforts to continually improve the total quality of service delivery and to be responsive to the City's customers. Citizen participation is facilitated through community budget forums and citywide resident and customer surveys. Community budget forums are held in each Council district during the months of February, March and April. Citywide customer satisfaction surveys are conducted annually with service priority ranking surveys taking place every three years.

Conclusion

During the past year, surveys showed that 96% of the residents of San Diego were satisfied with the services they received from the City.

In a national comprehensive survey, Governing Magazine recently ranked San Diego second to only one other city in the category of Managing For Results. In the area of Financial Management, only four cities were rated higher.

Benchmarking and performance measurement has been the foundation of effective service delivery and management in the City of San Diego for the past five years. These tools give us the ability to compare ourselves to other cities and private enterprise and focus our energies on areas where there are significant opportunities for improvement. The result has been uniformly positive: unprecedented levels of citizen satisfaction with services, national recognition and numerous regional and national awards.

San Diego is a well-managed city. In fact, continuing examples show San Diego to be one of the best-managed cities in the nation. With that recognition comes the responsibility to strive for continuous improvement and I believe that principle is an essential part of this organization.

The primary area of concern, however, is the ongoing revenue base for the General Fund. With the ongoing loss of revenue to the state and the reduction of other revenues, the General Fund's revenue base has been significantly impacted. New revenues such as tobacco settlement monies have enabled the City to provide many excellent new programs as well as supplement others. But those types of new revenues do not provide the fiscal resources to replace short-term revenues or fund the increased costs associated with providing the current levels of essential service.

The Zero Based Management Reviews, which grew out of the CHANGE² recommendations in 1994, have focused on General Fund activities in recent years. Many areas for savings or avoided costs have been identified and implemented. Unfortunately, the recommended savings are not of a magnitude to address the revenue base issue. In fact, the study of the Library Department concluded that the department was underfunded by \$5 million.

I believe that it is important to make progress towards correcting the differences between the ongoing revenue and expenditure bases. The Proposed Budget will focus on alternative solutions to continue to address this issue. In the interim, however, it is essential that the City of San Diego communicate with the state at every possible level regarding the importance of returning the revenues they have taken and not returned on an ongoing basis.